



# PARTNERS

## Rules and Procedures

Program Period:  
January - June, 1996

*RJ Reynolds*  
Tobacco Company

51846 1301

# 1996 PARTNERS Program

## Rules and Procedures

- ◆ All Direct buying customers of R.J. Reynolds Tobacco Company (RJR) have the opportunity to participate in the PARTNERS Program.
- ◆ Any new customer in the PARTNERS Program must participate under Plan A only.
- ◆ Customer participation, performance, and eligibility will be determined and measured by each RJR ship-to location during a Program Period. A Program Period will be six consecutive months, or other periods, designated by RJR.
- ◆ To participate in the PARTNERS Program, the customer must be enrolled for each ship-to location at the beginning of a Program Period and provide RJR with information it deems necessary to make initial Share-of-Market (SOM) and inventory determinations. A ship-to location may not enroll in the PARTNERS Program after a Program period has begun.
- ◆ Each Customer ship-to location must elect to participate in Sales Information Reporting Plan A or Plan B. This election determines the Program payment schedules of per carton payments for which the ship-to location is eligible. After initial election has been made, a ship-to location in Plan B can not change to Plan A until the beginning of the next Program Period. However, a ship-to location on Plan A may change to Plan B anytime during the Program Period. In such cases, PARTNERS Program payments will be calculated from the Plan B Program payment schedules Plan B for the entire Program Period.
- ◆ PARTNERS Program payments will be made to eligible customer ship-to locations that provide information to RJR as required by Sales Information Reporting Plan A or Plan B and achieve certain RJR performance criteria and SOM results during a Program Period. The Payment amount will vary depending on the Sales Information Reporting

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# 1996 PARTNERS Program

## Rules and Procedures (cont'd)

- Plan chosen, the number of RJR cartons sold, and the amount of change in RJR SOM.
- The amount of PARTNERS Program payments for an eligible ship-to location will be calculated by multiplying (1) the reported number of cartons sold by customer ship-to location during the Program Period (or such shorter interval designated by RJR), times (2) the appropriate per carton payment rates from the Program payment schedules. The maximum number of cartons on which payments can be earned is 105% of direct purchases from RJR during a Program Period or other designated payment interval.
- At the beginning of a Program Period, RJR will determine for each participating ship-to location (1) a Base SOM for RJR brands, and (2) for participants in Sales Information Reporting Plan B, a Beginning Inventory of all Cigarette carton inventory by UPC for all brands and manufacturers. In order for RJR to make these determinations, customers must provide accurate, complete information concerning sales, purchases, returns, and inventories for recent time periods as required by RJR. At the close of a Program Period, RJR will also determine (1) the SOM for RJR brands achieved by the ship-to location during the Program Period, and (2) for Plan B participants, the Ending Inventory of all cigarettes by UPC for all brands and manufacturers as of the last day of the Program Period. These determinations will be made from customer information provided under the Sales Information Reporting Plans. The appropriate per carton payment rate from the Program payment schedules is determined by the comparison of the Base SOM with the SOM achieved during the Program Period.
- SOM determinations are based upon bona fide unit sales (cartons) of RJR product reported by a ship-to location. SOM will be calculated to one decimal place (e.g., 31.2). Rounding will not be utilized (e.g., 31.2769 = 31.2).

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## Rules and Procedures (cont'd)

- ◆ After a Program Period begins, no adjustments will be made in SOM determinations or Program payment schedules because of changes or shifts in the customer base serviced by a ship-to location or because of geographic realignment of RJR Sales Regions. For example, if a retail chain purchases from Distributor A but then becomes a direct purchaser of cigarettes from manufacturers or shifts its business to Distributor B, no adjustment will be made in the SOM determinations or Program payment schedules for Distributor A or Distributor B.
- ◆ If feasible, RJR will make such equitable adjustments as it deems appropriate in SOM determinations, carton sales, and Program payment schedules when there is a consolidation of participating ship-to locations which are under common ownership during a Program Period. Any plans to consolidate participating locations should be coordinated with RJR as early as possible.
- ◆ To be eligible for a PARTNERS Program payment, a participating ship-to location must, throughout the Program Period: Remain actively engaged in the cigarette distribution business and a direct purchasing customer of RJR; provide Distributor Assist Programs / Services requested; provide RJR products an opportunity for distribution as requested; accept damaged and / or outdated RJR products from customers and send to Winston-Salem, NC as returned goods; and distribute and handle RJR Promotional product and new brand introductions in accordance with instructions from your RJR representative.
- ◆ All cigarette brands distributed by RJR, including brands of Forsyth Tobacco Products and RJR Macdonald, are included in payment calculations and SOM determinations. RJR will designate which of its brands are considered full price and savings for purposes of the PARTNERS Program.

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## Rules and Procedures (cont'd)

- ◆ Sales Information Reports under Plan A or B which are untimely, contain incorrect or incomplete information, are in improper format / form or otherwise do not comply with Plan requirements will cause the ship-to location to be removed from the PARTNERS Program and lose its eligibility for payment.
- ◆ Both Sales Information Reporting Plans require:
  - ① All products purchased by the customer or any affiliates, including its subsidiaries and its parent company, and sold to retail customers must be included in the customer's sales information reporting.
  - ② Any product purchased by retail stores or other outlets owned and operated by the customer or any affiliates must be included in the customer's sales information reporting when in RJR's judgment these purchases are skewed to selected brands resulting in distorted "sales to retail" S.O.M. calculations.
  - ③ Any products purchased by the customer or any affiliates that are sold to other direct buying customers of any cigarette manufacturer must be excluded from the PARTNERS Program sales information reporting by the selling customer.
- ◆ Payment will be made by check or credited to customer bank account via E.F.T. as soon as practicable after a Program Period ends and accurate SOM, performance qualification, and RJR carton sales have been determined and verified to the satisfaction of RJR. In instances of ownership changes for participating ship-to locations, RJR will make PARTNERS Program payment only to the owner of record as of the end of the Program Period. Payment will not be prorated. The owner of record is determined from RJR records of direct buying customers.
- ◆ RJR will have the right to audit, as and when it deems necessary, customer books and records relating to any information provided pursuant to the PARTNERS Program. Customer will be required to provide

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## Rules and Procedures (cont'd)

reasonable cooperation and make available relevant books and records for it and its affiliates. Customer must require that the following records be maintained and preserved for the current and previous two Program Periods:

- ♦ Invoices and disbursement records related to the purchase of product from manufacturers and any other source(s) from which product is obtained.
- ♦ Inventory records, by manufacturer product code, coinciding with the beginning and ending dates of each Program Period.
- ♦ Invoices and cash receipt records related to the sale of product to retailers or any other customer(s).
- ♦ Computerized records to support the data provided to RJR.

RJR will also have the right to conduct a physical count of customer cigarette inventory. Customer refusal to permit audit or inventory count as required by RJR will cause customer to lose its eligibility for payment and disqualify customer for further Program participation during the Program Period.

- ♦ Any customer providing false or misleading information, either deliberately or through gross negligence, will lose its eligibility for payment and will be eliminated from participation in the PARTNERS Program for the current and future Program Periods. Such conduct may also cause customer to lose its direct purchaser status.
- ♦ All issues arising from the PARTNERS Program, including interpretation and application of Program requirements and the Rules and Procedures and Determinations of SOM, sales, and inventories, will be resolved by RJR in its sole discretion. The decision of RJR on such matters will be final.

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# 1996 PARTNERS Program

## Rules and Procedures (cont'd)

- ◆ No customer is permitted to deduct any part of its PARTNERS Program payment or anticipated payment off invoice.
- ◆ No direct buying customer is eligible for payment under the PARTNERS Program if it or an affiliated company has past-due invoices from RJR or Forsyth Tobacco Products at the end of the Program Period.
- ◆ RJR reserves the right to retain allowances due under the PARTNERS Program as an offset for outstanding invoices from RJR or Forsyth Tobacco Products. RJR also reserves the right to modify or discontinue the PARTNERS Program at any time.

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